MINUTES OF THE MEETING OF
THE OVERSIGHT COMMITTEE OF THE
LOCAL GOVERNMENT PROPERTY INSURANCE FUND

WEDNESDAY, OCTOBER 26, 2005

GEF 3
125 S. WEBSTER STREET
MADISON, WI 53702

Present: Kevin Houlihan
Eileen Mallow
Dan Bubolz
Peter Medley
Philip Kress
Glinda Loving

Guests: Dave Marchant
Fred Haring (by telephone)
Dean Boes
Lowell Carter

Eileen Mallow called the meeting to order at 9:11 a. m.

Dean Boes was introduced as the District Manager in the Madison office of the ASU Group.

The agenda was approved and there were no additions.

The minutes of the April 18, 2005 meeting were reviewed. Upon a motion by Dan Bubolz and seconded by Peter Medley it was unanimously,

RESOLVED, that the minutes of the April 18, 2005 meeting are approved as presented.

Financial Report

Dave Marchant reported that the Fund experienced a very good FY 2005 with surplus reaching $34.5 million, up from $24.2 million in FY 2004. Direct premium earned dropped to $25.4 million from $26.6 million. Direct losses incurred also declined to $9.3 million from $9.9 million. Net income after reinsurance totaled $10.2 million, an increase from $9.7 million last year. Insurance in force reached $37.2 billion, an increase of nearly $2 billion.

Operating ratios continue to improve with the net loss ratio dipping to 43%, down from 47% last year. The net combined ratio (includes all losses and expenses after reinsurance) stands at 55% compared with 57% at year-end 2004. The policy count is down from 1,203 to 1,160 at FY end.

Peter Medley asked about the increase in insurance in force compared with the decrease in premium. Policyholders are taking higher deductibles which cause this effect. Recent rate reductions implemented by the Fund may reduce direct premium next year and lessen the contribution to surplus.

Eileen Mallow mentioned that the LAB had inquired about the Fund's surplus amount and whether it is currently at a proper level. Peter Medley discussed with LAB staff and pointed out several reasons why the Fund should maintain a strong surplus: 1.) The Fund cannot underwrite its business; it is not a multi-line carrier, and operates in a single state with concentrated risk. 2.) s. Ins 6.72, Wis. Adm. Code states that a property carrier should not expose more than 10% of its surplus for any one claim. This is a reinsurance issue and the markets are volatile. The Fund has had to take higher retentions due to increased premiums and may have to again in 2006 due to the catastrophes in 2005. 3.) A greater surplus provides a pricing cushion. 4.) The Fund is a voluntary market with no long term commitment from the policyholders; so the surplus must be able to absorb a loss of customers. 5.) The Fund is financially backed by the state general fund, and in a financial crisis, the Fund would not want to request dollars from the general fund.

Eileen Mallow also pointed out to the LAB that Fund premiums are public money and the strong surplus lessens the need for rate increases.

Glinda Loving asked what might happen if the general fund needed money. Would they come to the LGPIF for a loan? Eileen Mallow said not likely due to past litigation where the LGPIF prevailed.

Phil Kress added that the broad coverage offered by the Fund is another reason for a high surplus. Peter Medley also pointed out that the Fund seems to be competing well with private carriers.

Dan Bubolz had a discussion with LAB staff who questioned why the Fund's policy count is down. The policy count is still higher than five years ago, and only down less than five percent from the last two years in a soft market.

Upon a motion by Dan Bubolz and seconded by Peter Medley it was unanimously,

RESOLVED, to accept the Financial Report as presented.

A discussion followed regarding the ***transfer of assets*** from short term investments to long term. It was pointed out that about $42 million is deposited in the cash account (short term) and about $7 million in bonds (long term). Nothing was moved in to long term during 2005. Dan Bubolz mentioned that the short term account returned nearly the same as the long term account last year. He suggested that the Fund could move $24 million to the long term account if the SWIB thinks it would be in the best interest of the Fund. All monies would be conservatively invested according to operating guidelines.

Upon a motion by Peter Medley and seconded by Glinda Loving it was unanimously,

RESOLVED, that up to $24 million of Fund monies be moved from short term to long term investments when deemed appropriate by SWIB consistent with investment guidelines.

Loss Control Services

Glinda Loving mentioned that information gathered in meetings with other insurance buyers seems to indicate that the Fund needs to look at loss control services. Competitors seem to do more of this than the Fund. She feels that competition is increasing and maybe some surplus should be used for loss control services. Dan Bubolz stated that the Fund has low costs, so more premium is returned in claim payments. Peter Medley asked if the issue is individual charges per insured or a blanket charge included in the premium. Dan Bubolz said that the new Pinsoft claims system can capture data better and give good direction for loss control activities. Glinda feels that the Loss Control Subcommittee should react to the surplus in the Fund. It was the consensus of the O C that they would like the Loss Control Subcommittee to make recommendations on how a loss control program should be implemented and operated. Eileen Mallow indicated that possibly some surplus could be directed to loss control. Phil Kress said that he feels loss control activity should be linked to need, not surplus. Peter Medley stated that if one or two points is added to expenses for loss control, it would be acceptable.

Eileen Mallow summarized the meeting at this point stating that, 1) a 1:1 or 1:2 premium to surplus ratio is ok and it will continue to be monitored, 2) some dollars need to be directed from short term to long term investments; and, 3) the Loss Control Subcommittee needs to determine what insureds want in a program and how it would be funded. Carole Charles should call a meeting.

Advisory Committee Report

Kevin Houlihan reported on the recommendations of the Advisory Committee to the Oversight Committee. Three motions from the Advisory Committee were presented for Oversight Committee consideration. Following discussion, all three motions noted below were unanimously approved by the Oversight Committee.

1. Resolved that the Oversight Committee accept the recommendation from the Advisory Committee/Claims and Policy Issues Subcommittee to recommend the Waiver of Subrogation Addendum form to policyholders after legal review. Motion by Kevin Houlihan, seconded by Peter Medley.

2. Resolved that the Oversight Committee accept the recommendation from the

Advisory Committee/Claims and Policy Issues Subcommittee that Extra Expense Coverage included in the policy be limited to $5,000,000 with an option to purchase additional coverage. It was agreed that the actuary should review the rates and implementation should be by July 1, 2006.

Motion by Kevin Houlihan, and seconded by Glinda Loving.

3. Resolved that the Oversight Committee accept the recommendation from the Advisory Committee/Claims and Policy Issues Subcommittee that the Valuation Policy language limit the time to report new locations to the current policy period plus the previous policy period. Premium for the two periods should also be collected. Motion by Kevin Houlihan, seconded by Dan Bubolz.

Kevin Houlihan also reported that the Advisory Committee had made a recommendation to increase the Contractors Equipment automatic limit to $10,000 with a slight increase in rates, but it was sent back to the Subcommittee for further review of the rate increase needed to offset the additional coverage grant. He also mentioned that a dividend recommendation from the Rate Analysis Subcommittee was defeated by the Advisory Committee after hearing the Commissioner's comments. It was also pointed out that a city member of the Advisory Committee had resigned and a replacement was being sought.

Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the Advisory Committee report be accepted as presented.

Manager's Report

Dan Bubolz presented the Manager's report. The Legislative Audit Bureau has completed its latest audit of the LGPIF and its final report was unqualified.

A Probable Maximum Loss report was recently completed and it has not been shared yet, but will be given to the policyholders with the largest 10 risks prior to general release. The Report addresses fire and sprinkler protection, wind exposure, and terrorism risk. The Report will be shared with the Reinsurance/Flood Subcommittee and the Rate Analysis Subcommittee. The Report does not determine values of property. Locations are not pertinent to the Fund, just the values. Dan stated that the report should be a useful tool for policyholders.

Dan updated the Committee on the Electronic Statement of Values project. This is currently a three-pronged approach: 1. Complete the database to collect information needed for the SOV, 2. Select a host for the web server for web interface with appropriate security to collect data via the web. 3. Put in place a process to enter, print, distribute and edit SOV data from the administrator's office. The subcommittee will be reactivated and should meet by December.

Upon a motion by Glinda Loving and seconded by Kevin Houlihan it was unanimously,

RESOLVED, that the Manager's Report be accepted as presented.

Administrator's Report

Lowell Carter and Dean Boes presented the Administrator's Report. The number of paid claims is down from last year, but total dollars paid is consistent with the previous year. Claims activity for the new fiscal year is heavy due to the tornadoes in southern Wisconsin this summer. It was pointed out that the Pinsoft computer system allows for more analysis of losses by entity and type. Some examples were discussed. This will provide better information for loss control activities in the future.

On the policy side, insurance in force is up 3.6% but annual premium is down 4.7% due continued use of higher deductibles and some loss of policyholders. Total number of policies is written is down by 43, or 3.6% from last year. The entity reports now include (Policy Count by Entity Type, Coverage in Force by Entity Type, and Premium in Force by Entity Type) now include total entities in the state to reflect what percentage of each entity type is written. These statistics have not changed significantly from last year. It was pointed out that rate reductions approved earlier in the year are just beginning to take effect and it is anticipated that some lost account will return. Quoting activity is increasing.

Dean Boes discussed the positive results of the customer surveys and it appears that it is a reflection of the administrative staff to be highly responsive to customer service needs. The surveys are in transition from a paper process to an electronic system. The newsletter will be used to educate policyholders on the electronic system availability.

Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the Administrator's Report be accepted as presented.

Next Meeting

The next meeting of the Oversight Committee will be on April 19, 2006 at 9:30 a.m. in room 125 at the OCI offices in Madison.

Eileen Mallow adjourned the meeting at 11:40 a.m.

Respectfully submitted,

Lowell Carter, Acting Secretary Date

ATTEST:

Eileen Mallow, Chair Date